ASEAN at 50: Looking Back and Looking Forward

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Looking Back

I have spent most of my professional career, which spans over 3 decades, starting when I was a student, on the Association of Southeast Asian Nations (ASEAN). This journey has made me realise that the greatest value, and the reason for its sustainability, is to evaluate ASEAN as a process. There are many papers in this and other volumes to celebrate ASEAN at 50 with in-depth and serious analysis, including facts, figures, and models. Allow me to take a different approach by using my own personal journey through the different phases of ASEAN's development – in the area of economic integration – to give insights on the importance of ASEAN as a process and how both internal and external context played a role in the process.

The First 10 Years: Testing the Water with a Preferential Trade Agreement

I was first exposed to ASEAN in my international economics and development classes, and ASEAN economic integration at the time was still at its limited stage of a preferential trade agreement (PTA). In class, the discussion centred around the lack of seriousness of the PTA agreed on in 1977 by the then five original members of ASEAN (Indonesia, Malaysia, the Philippines, Singapore, and Thailand). The narrow list of products included for tariff reduction was the focus, and the example of snow ploughs was invoked! Recall that at the time the five ASEAN members were all mostly still in the import substitution phase of industrialisation, using tariffs as the main instrument. European integration at the time had already reached a common market stage, and we debated the path of ASEAN – as to whether it would go to the next stages of economic integration such as a wider free trade agreement and common market.

In 1982, I came back for a brief period during my PhD studies and worked on an ASEAN research project on protection in the ASEAN region. I did the paper with Pak Boediono who was with the Indonesian Planning Agency then. The study at the time showed the high levels of effective protection and had various import licensing and local content regulations. The allocation of privileges was linked to various vested interests and state-owned enterprises. Indonesia was at the time not ready for reforms and economic integration, even though a number of the ASEAN projects had been launched.

The First Step: A Comprehensive Free Trade Agreement at 25 Years

After I completed my studies and came back to Indonesia in 1986, the lack of economic integration was still a major part of the discussion. But the mid-1980s ushered in a series of major reforms in Indonesia in the wake of the fall in oil prices. The Government of Indonesia pursued an export-oriented strategy to reduce the country's dependence on oil through a series of regulatory and institutional reforms, including currency adjustments, which reduced the barriers to entry for goods and investment.

Indonesia's non-oil exports surged and investments flowed in. Indonesia became confident about its capacity to compete internationally, and using the phrase 'free trade' was no longer seen as a reflection of 'liberal values' that needed to be avoided. In other words, as Dr Narongchai Akrasanee, the envoy to Prime Minister Anand, would relate, the words of Minister Hartarto at the time – 'Indonesia agrees' – were the signal that led to the ASEAN Free Trade Area (AFTA) being signed off in 1991 by the Leaders and began to be implemented in 1992. The vision was to make ASEAN competitive as a region and as a regional production base.

This was a comprehensive free trade agreement that covered a wide range of goods whose tariffs would reach 0%–5% by 2008, which was brought forward to 2001 and had two tracks between the six members and the CLMV countries (Cambodia, the Lao People's Democratic Republic, Myanmar, and Viet Nam), and allowed for a minimum number of sensitive lists and exclusions. One positive aspect of AFTA was also its simple rules of origin, which were based on 40% value added and not complex. The minus X principle was already practised when Malaysia opted out on automotive because of their national car project, Proton. Malaysia would later include automotive in its agreement within the ASEAN Economic Community (AEC), but only after negotiating its re-entry on automotive with the other ASEAN countries. ASEAN opted for a free trade area rather than a common market with common external tariffs.

The first feature of seeing ASEAN as a process is evident: the consensus principle meant that progress is slow, especially if the 'readiness' factors of members are not there; as such, the process is a sequential one of building blocks – going deeper, faster, and wider. This will be evidenced in other instances in the ASEAN process. In other words, it is difficult to evaluate whether there is a low level of ambition and slow progress due to consensus, without understanding ASEAN as a process.

The 1992–1996 period marked an important period for ASEAN and the reforms that each country undertook due to the AFTA commitments, the confluence of other international commitments, and the 'competitive liberalisation' model, which meant reforms were necessary when your competitors were carrying out reforms. Various ASEAN countries reduced their tariffs on a most-favoured-nation basis in line with their AFTA schedules. The Asia–Pacific Economic Cooperation (APEC) forum and

its strategy of concerted unilateral liberalisation mode influenced reforms of the hosting economy. For instance, this had an impact on Indonesia in 1994 and the Philippines in 1996. In 1994, Indonesia deregulated its foreign direct investment to allow for 100% ownership, something which had up to then been a 'sacred cow' after the anti-Japanese riots in the 1970s protesting the dominance of Japanese investments in the country. Furthermore, it was in Indonesia that the Bogor Goals of APEC for free trade and investment in the region by 2010/2020 came about, again in a country where the phrase 'free trade' is difficult to get acceptance. The Philippines also undertook several reforms; and the model of reaching critical mass on an issue, which was then taken to the World Trade Organization (WTO) for negotiations, was also achieved with the Information Technology Agreement. ASEAN members that were part of APEC played an important role in achieving this, notably the countries with competitive advantage in the electronics sector, such as Malaysia.

Most importantly, in 1994, the Uruguay Round of multilateral trade negotiations was completed; with the WTO created in 1995, the ASEAN countries that were members of the WTO also had to fulfil several commitments in terms of reducing and binding their tariffs, eliminating local content, aligning subsidies, addressing services and agriculture for the first time, and eliminating textile quotas. The ASEAN countries that were not members of the WTO – that is, Viet Nam, Cambodia, and the Lao People's Democratic Republic – also began a process of acceding to the WTO. All these shaped and informed the reforms undertaken in each ASEAN country and made them more 'ready' to pursue deeper and faster economic integration.

This is why we see a number of interesting subsequent developments related to these events that provided the 'ready' conditions and confidence to continue with deepening integration as part of the overall process of opening up and implementing reforms. This process was not held up by the Asian financial crisis of 1997–1998 for a combination of reasons – being under International Monetary Fund programmes (Indonesia, Thailand, and the Philippines), the need to restructure and be competitive (Malaysia), and the need to start the process of development and acceding to the WTO and market economy (Viet Nam and Cambodia).

Interestingly, the ASEAN Vision 2020 was launched in 1997 and 'a stable, prosperous and highly competitive ASEAN Economic Region in which there is a free flow of goods, services and investments, a freer flow of capital, equitable economic development and reduced poverty and socio-economic disparities' was expected to be completed by 2020. The Vision was endorsed by ASEAN Leaders at the end of 1997, in the midst of the Asian financial crisis. Another response to the crisis was that ASEAN Leaders agreed to bring forward the deadline for completing AFTA by 5 years to 2002. ASEAN Leaders and countries showed collective will in sending this important signal that reforms and continuing development were important.

The second important insight into the process is the interaction between internal and external processes and shocks, which underpinned the political will and commitments to undertake reforms.

Deepening and Widening Economic Integration: From 2003 to the Present

Throughout this period, I was involved in policy-based research on international economic issues, including on economic integration. A lot of this research fed into track two, whereby think tanks would meet with governments, the private sector, and civil society to discuss the vision of ASEAN in the various spheres. One of the interesting periods was that leading up to the 2003 vision for an ASEAN Community, when we were all involved in a series of analyses and dialogues to provide input on how to create an ASEAN Community.

The third important insight is the importance of involving the thought processes of track two and the interaction between all the stakeholders in track two. This includes the private sector, civil society, and government representatives. For instance, the involvement of the different business sectors and associations was important in defining the impediments to doing business and how it is no longer about reducing tariffs but more about non-tariff measures and standards.

Being assigned Trade Minister of Indonesia (2004–2011) and to be involved in the process of implementation of the AEC was a great opportunity for me. I believe we achieved a lot in terms of creating a framework, which is known as the AEC Blueprint. Let me just reflect on the learning experience and transition from an economist and track two policy activist to an actual policymaker as Trade Minister for 7 years during a crucial period of the formulation of the AEC and the wider regional agenda.

There were processes that had started before I joined the government which fell upon our terms in government to implement. Both involved the vision that we had always held regarding open regionalism – deepening and broadening economic integration, not as a closed bloc but as one where regional integration serves to harness the resources and different comparative advantages of the ASEAN countries, so we can become more competitive as a region vis-a-vis extra ASEAN markets. The mandate for the latter came from the AEC. It was also a model of integration that sought to engage more and more partners. This was started in 2001 with the initiative to explore the ASEAN–China free trade agreement (FTA) and the launch of the process of negotiations.

The ASEAN–China negotiations proceeded rapidly and were influenced by external events. It was the first of the 'ASEAN+1' FTAs that ASEAN would negotiate and formed part of the growing geo-economic presence of China. China was not directly affected by the Asian financial crisis; in fact, the country played a cooperative role by not devaluing its currency at the time when all the currencies in the region were in free fall. As the ASEAN economies were struggling with recovery from the severe economic and institutional breakdown, and in some countries political turmoil, China was forging ahead with its development programme resulting in double-digit growth of its economy and a dramatic increase in its exports. One important feature of the ASEAN–China FTA was the 'early harvest', which allowed access for a certain group of products prior to the completion of the whole FTA. This was seen as a concession by China in a very uncertain world situation after the 11 September 2001 World Trade Center terrorist attack. This was just as the Doha Development Round of WTO trade negotiations came about.

The negotiations were completed in 2004 and signed by the incoming government of Susilo Bambang Yudhoyono. Thus, even though I was not the Trade Minister responsible for the negotiations with China, I did sign the agreement on behalf of the Indonesian Government witnessed by our two leaders. Subsequently, Japan, the Republic of Korea (henceforth Korea), Australia, New Zealand, and India would follow with different nuances for each negotiation, which reflected the different approaches, level of readiness, and other considerations.

More importantly was the progress made with ASEAN. I would just focus on economic integration because other things were happening as well, most importantly the ASEAN Charter, which was finally concluded in 2009 and provided the legal basis for ASEAN. On the economic integration front, Leaders committed in 2003 to achieving an ASEAN Community made up of the economic, political–security, and socio-cultural pillars by 2020. Leaders called for the end goal of economic integration to be the AEC, although it was unclear what this entailed exactly. It was only when Leaders, during the summit in early 2005, called for an acceleration of implementation that ASEAN Economic Ministers, with the officials and the energetic Secretary-General of ASEAN Ong Keng Yong, worked intensively to come up with an AEC Blueprint.

The AEC Blueprint was then endorsed by the Leaders in 2007 and marked a fundamental shift in the ASEAN process to one with clearly defined goals and time frames. It is an agreement and thus, in essence, is a binding commitment by all members. The AEC Blueprint became the architecture for the implementation of the four pillars of the AEC: a single market and regional production base, a competitive economic region, equitable economic development, and integration with the world economy. The AEC Scorecard was the monitoring mechanism, which in the original conception was to be used to ensure timely implementation.

Much analysis has been undertaken on the merits and weaknesses of the AEC Blueprint and the AEC Scorecard in terms of lack of real progress because of vagueness or flexibility of the goals, and lack of transparency in the scorecards. In this essay, I would like to just focus on the merits viewed from the ASEAN process and its impact on domestic processes. The main advantage of the blueprint and scorecards in my view was the way they 'shaped' coordination within the ASEAN process itself as well as

within countries. The different components of the blueprint were coordinated at the ASEAN Economic Ministers level, but finally at the council level of Ministers at the AEC. This in turn also shaped a coordination mechanism domestically.

In the case of Indonesia, the council minister was the Minister for Coordination of Economic Affairs and this allowed myself, as the Minister of Trade at the ASEAN Economic Ministers level and for internal coordination, a means to call for coordination and division of tasks and decide who was responsible for delivery. A matrix of a plan of action based on the blueprint of deliverables and timelines was drawn up, and Ministers/Ministries in charge were listed. This matrix of action was in the Indonesian structure of government and was also then passed as a Presidential Instruction outlining what Ministers had to do and by when.

While there was, of course, the predictable resistance and slowness in progress, it allowed a process domestically to know who was delivering or not delivering. It was also linked to domestic reforms. One example was the recognition that to achieve the target of an ASEAN Single Window, it was important to have a National Single Window. This led to a coordination process led by the Ministries of Finance, Trade, and Transportation to coordinate the 25 or so agencies involved in import and export regulations and procedures to be lined up, harmonising the business procedures, and creating the necessary infrastructure. There were other examples in air transport regarding open skies, advocating visa-free travel within ASEAN, and the issue of standards for professionals in various sectors.

The third part of the ASEAN process is how it became more structured and moved one step forward with clear processes that were binding, but still with unclear consequences if the commitments were not made and there was lack of transparency in the process of monitoring.

Another relevant experience that I want to relate is the reaction to the ASEAN–China FTA, not just in Indonesia but elsewhere. The notion that cheap and mass-produced Chinese goods coming into our countries and leading to the demise of our small and medium-sized enterprises which resulted in greater unemployment was becoming a hot issue around 2010.

The completion of the commitments under the ASEAN–China FTA in 2010 led to surprised reactions domestically in Indonesia and a strong reaction regarding the ASEAN–China FTA, including political pressure to 'renegotiate' the agreement. Fortunately, this was averted but not without a lot of effort to explain that this was a process that had started in early 2000 and what was needed was to address our own issues of competitiveness, including with small and medium-sized enterprises, and cooperate with China to increase their investment in Indonesia.

The lessons learned here are about the importance of the domestic process of increasing understanding regarding FTAs, the potential opportunities and preparing for any potential negative impact on sectors or segments of the population, and that this is an ongoing effort that should be undertaken not just by the government but also by other stakeholders. I believe this is still one of the challenges today – how to tell the story of the benefits arising from an FTA and anticipate its effects. I continue to believe that the answer lies in ensuring on the domestic side the continuation of reforms and national complementary policies to enhance competitiveness (e.g. infrastructure) and inclusiveness (e.g. an effective empowerment programme for small and medium-sized enterprises). On the external side, the way we negotiate the FTAs and, with the support of other international partners, effective capacity building and economic cooperation within these agreements, or as a complement to these agreements, is crucial. If we do not get these two things right, it will be difficult to get domestic political support for continued reforms and continuation of economic integration.

The final point that I wanted to raise in the process of ASEAN relates to the widening of ASEAN. Between 2001 and 2008, there was a process of negotiations involving ASEAN with six of its Dialogue Partners to have a trade agreement. Each one differed in level of ambition, process, and nuance. I believe it was an important process for ASEAN and the compromises that had to be made reflect the consensus principle, the struggles to ensure ASEAN centrality and cohesion, and showed the stages of how to move forward on the path of open regionalism.

Let me just give a flavour of the main takeaways for me. The first was the China–ASEAN FTA which was the first FTA for China and introduced an early harvest in lowering tariffs to zero for trade in goods, allowing some sectors to enjoy early benefits as a buy-in for domestic constituents

of all partners. This was followed in a sequential manner for all goods and began to be implemented because of the early harvest in 2005 and completed in 2010. ASEAN was successful in maintaining the more liberal 40% value added rule of origin. The negotiations were sequential, starting with goods, then services and investment.

The second was the ASEAN–Korea FTA, which followed along the lines of the China FTA model. It was also one of the rare instances of the ASEAN minus one principle with Thailand opting out temporarily while the rice issue between Korea and Thailand was being settled. The idea that this difference should not delay the ASEAN–Korea FTA because of the consensus principle was an important development for the ASEAN process. Thailand was able to join the ASEAN–Korea FTA a few years later.

Third was Japan, and the difference was that Japan started with bilateral agreements with each of the major ASEAN countries and was the first to attempt introducing the capacity-building component – changing the name to Comprehensive Economic Partnership Agreement (CEPA). This was evident in the bilateral and the eventual ASEAN–Japan CEPA that was negotiated.

This was followed by Australia–New Zealand and India. The former was negotiated as Closer Economic Relations and, given the more developed status of these countries, their level of ambition was high in terms of scope and coverage in goods, services, and other areas, notably including issues regarding the environment, and was a single undertaking.

The last bilateral FTA was with India, which was the most difficult to negotiate due to its size and level of development, so that necessary compromises had to be made in line with a lower scope and more complicated rules of origin. The negotiations were sequential with the services negotiations, including movement of natural persons being the most difficult.

I should also mention the attempt to negotiate an ASEAN–European Union FTA. Discussion on the possibility of an ASEAN–EU FTA began in 2004–2005 and originally the idea was that the FTA would be region to region rather than with individual countries. Given the issues that Myanmar had with the European Union at the time, there were requests to have a

minus one approach, but ASEAN in this case stood firm that Myanmar had to be included. In the end, the European Union negotiated bilaterally with a number of ASEAN countries, with talks with Viet Nam having been concluded just recently and the others still in the process of negotiations.

The last piece of the widening of regional economic integration was the consolidation of all the bilateral ASEAN FTAs into one East Asian economic integration. This had become an imperative in the aftermath of the collapse of the WTO Doha Development Agenda negotiations in 2008. In the discussions between ASEAN and its Dialogue Partners in the subsequent years, there was a long debate about whether the consolidation should be ASEAN+3 (China, Korea, and Japan) or +6 (including Australia, New Zealand, and India). There were differing views amongst the Dialogue Partners and in the end ASEAN devised a way that was in line with open regionalism by achieving agreement by Leaders to consolidate the agreements into an East Asia Regional Comprehensive Economic Partnership (RCEP) Agreement. This framework agreement was achieved in 2011 when Indonesia was chair of ASEAN and incorporated a number of principles – informed by all the processes ASEAN had already undergone.

The main principles were open accession in that the first set of negotiations would be with countries ASEAN had FTAs with, but was open to other partners. Second, it was not limited to three or six in the consolidation, but the first round would be with the countries that we had FTAs with – so it could be six, five, or three, depending on the negotiations. In the end, the process of negotiations, which started in 2012, was with six of the FTA partners; but in principle, if one or two decided that they were not ready for the consolidated agreement, they could opt out until they were ready. This readiness principle is intended to avoid progress being impeded if one or two partners could not agree on the negotiations. The third principle in negotiations was also to go towards best practices and ratchet up. In other words, the consolidated agreement should converge upward to the best practice out of the six ASEAN+1 FTAs. Furthermore, the components of the agreement are comprehensive, and it is a single undertaking as the sequential components have already been there as building blocks.

Conclusions: Looking Forward: The Next 50 Years?

The intention of this essay is to portray ASEAN as a process. Whatever criticism we have of ASEAN regarding its slow progress, low ambition, and lack of legally binding commitments that are enforceable, we have to appreciate that the process did lead to agreements, which influenced the reform processes that took place in each country. Most importantly, it is still ongoing in this world of uncertainty regarding trade policy, and there is already a sense of an ASEAN Community. Given the main elements of the process highlighted above, how should these processes continue, evolve, and even transform to ensure the sustainability of the AEC and economic integration in the future?

First and foremost is the political will that must come from political leaders and their ministers to see ASEAN and its wider integration as a political imperative. One important feature of most of the last 50 years is the creation of an ASEAN 'community' as reflected in the close relationship and high degree of comfort level that Leaders and Ministers have with each other. This sense of community emerged from ASEAN as a process, by having faced the same external challenges and crises, and by often being able to come up with an ASEAN response. With a new generation of Leaders that have less history with each other and with a number of Leaders ascending national leadership from regional leadership positions, how the sense of community and realisation of the strategic importance of ASEAN is maintained is key. One important existing forum that could be re-energised to this end is the Leaders' Retreat for ASEAN Leaders held at the first ASEAN Summit of the year. Leaders need to use it to sit down and talk openly to strengthen the political will on ASEAN and the importance of ASEAN centrality in facing the economic and political–security challenges we are confronted with. This should also filter down to the ministerial and then officials levels. Otherwise, the process will be reversed – a bottom-up process where officials and bureaucrats drive the agenda in the absence of the bigger strategic vision and objectives. This is one of the recommendations made by the ASEAN Institutes of Strategic and International Studies (ISIS).

Second, as has been demonstrated in the past, the external situation has led to a commitment and collective will to move forward together towards a strengthened common position. The time now is one of great uncertainty in trade policy with the retreat of the United States and advanced countries in support of the multilateral trading system, a tendency towards protectionism, and a lack of progress in other mega regional agreements, such as the withdrawal of the United States from the Trans-Pacific Partnership. In addition, the trend towards bilateral agreements is not beneficial for ASEAN, given that rise in the costs of doing business from a plethora of scope, schedules, rules, and standards. ASEAN and East Asia have benefited from an open world economy, and thus they have the greatest stake compared with any other region in fighting protectionism and ensuring that a rules-based trading system is maintained. Continuing to deepen the AEC and completing negotiations on the RCEP framework would send an important signal to check protectionism and provide more certainty about the direction of trade policy. After all, RCEP comprises 30% of world trade and the world economy, and half of the world's population – so what happens in RCEP will matter.

As was the case with the ASEAN process, RCEP serves to buttress regional trade reform, which will be needed to bring Asia's growth potential to its next stages of development. The benefits of RCEP will not just come from market access but will also make ASEAN the centre of the global value chain and will generate investments, which will boost exports.

Third, taking a longer-term perspective on ASEAN as a process reveals that agreements in ASEAN tend to start with low or modest ambition and conservative timelines. However, more often than not, it is followed by an increase in ambition and scope as well as a shortening of timelines when members are 'ready'. This may be part of the sustainability of ASEAN to date and, while ideally there should be a deeper integration exercise within the AEC as well as in the scope of RCEP, we must see it as a process that will be ratcheted up. Thus, while the current state of deepening the AEC and the pace and scope of negotiations with RCEP are deemed to be slow and have low ambition, it is nevertheless ongoing. It is important to conclude a framework agreement and include the existing issues of deepening market access, services, and investment, while at the same time begin to deal with the new issues such as e-commerce.

RCEP was designed to deal with the challenges of the 21st century so that a minus x formula is possible. This should, of course, be the last resort, but neither should there be a blockage due to political demands back in the countries although, of course, this should be the last resort. The minus x formula is not about exclusion; it is more about opting out until one is ready. Furthermore, there is the possibility to add issues in the future components of negotiations. The issues in trade agreements must now take into account the evolution of global value chains and the technological disruptions that will mean continuing to tackle the old issues in trade agreements, as well as handling new issues.

Fourth is really addressing the issue of an equitable ASEAN, between ASEAN countries and within ASEAN countries. This will necessitate a combination of a programme of targeted capacity building, including integrating small and medium-sized enterprises into the regional integration process, and well-planned infrastructure building that will ensure connectivity within and between countries. In fact, in 2011 the Asian Development Bank created an ASEAN Infrastructure Fund of US$500 million to support economic integration, but it has not been disbursed nor utilised effectively. There is opportunity in cooperation and collaboration under the Master Plan on ASEAN Connectivity, and in proposing 'ASEAN integration' projects to multilateral agencies, such as under China's Belt and Road Initiative or other programmes. Education and training could be another big area of cooperation and collaboration that will be important.

Fifth, trade agreements today go beyond tariffs and goods, and the AEC as well as RCEP have included issues related to non-tariff measures, services, investment, and even the environment. The movement of skilled professionals, even though part of the ASEAN vision, is still more on paper than in implementation. This will be the next big challenge and, given demographic changes, it may also require us to revisit the movement of unskilled and semi-skilled workers. Rather than dealing with the issue bilaterally, there may be great scope for ASEAN cooperation and collaboration in this area. Another very important area relates to the technological disruption that is already happening and transforming the way we produce and trade goods. It will be key that the AEC and RCEP continue to deal with the traditional issues as well as at the same time, if they are to remain relevant, address the new issues.

Sixth, how does ASEAN go beyond government-to-government and really involve the people? Technology will make this easier, and the battle will be to get young people involved. For ASEAN to be people centred, the youth offer the biggest potential and allow for more people-to-people movement as well as enhance the cooperation in the creative economy sphere.

In conclusion, you may think that I am too much of an optimist and painting a rosy picture of ASEAN. I do recognise the criticism of ASEAN as slow and not ambitious in making progress because consensus means the lowest common denominator. Also, businesses still face traditional barriers to entry, especially non-tariff measures and other restrictions. Surveys of citizens of various ages in ASEAN countries tend to show that they know about ASEAN but do not know exactly what it does for them. Is this causing the lack of political will and concern regarding the benefits of ASEAN and free trade agreements? I do not know the full answer, but I do think we have our homework ahead of us to have the right narrative that will resonate economically, politically, and for the people, of the benefits of openness for development and that there is a way forward which is going to be more inclusive. I do believe ASEAN will be there for another 50 years because it is unthinkable to live in a world without ASEAN. Let us not wait to realise the importance of ASEAN when it is no longer with us.

ABOUT THE AUTHOR

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